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TO RUEHC/SECSTATE WASHDC 7502
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RUEHBK/AMEMBASSY BANGKOK 3899
RUEHBJ/AMEMBASSY BEIJING 7487
RUEHUL/AMEMBASSY SEOUL 9080
RUEHGP/AMEMBASSY SINGAPORE 7072
RUEHKO/AMEMBASSY TOKYO 9293
RUEHML/AMEMBASSY MANILA 0204
RUEHJA/AMEMBASSY JAKARTA 4148
RUEHKL/AMEMBASSY KUALA LUMPUR 3830
RUEHHI/AMEMBASSY HANOI 3407
RUEHBY/AMEMBASSY CANBERRA 4653
RUEHWL/AMEMBASSY WELLINGTON 1919
RUEHHK/AMCONSUL HONG KONG 8773
RUEHGH/AMCONSUL SHANGHAI 1503
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STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR KATZ AND STRATFORD
USDOC FOR 3132/USFCS/OIO/EAP
TREASURY FOR OASIA/TTYANG AND HAARSAGER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, SAN FRANCISCO FRB/TERESA CURRAN, AND NEW YORK FRB MARI
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SUBJECT: Taipei Economic Brief for November 2007

¶1. Summary. This cable summarizes selected November 2007 economic events in Taiwan. Unexpected export boom raises Taiwan's 2007 real GDP growth forecast by nearly 1%....Less optimism for growth in 2008.... Blame typhoons for pushing inflation to a temporary 14-year high....Taiwan sets a goal to improve energy efficiency by 33%.... Taiwan to become world's top TFT-LCD producer in 2007....Nissan to locate one of its international design centers in Taiwan.... Taiwan's resource recycling industry developing quickly....Big potential in solar photovoltaic industry....END SUMMARY.

Upward Adjustment of 2007 Economic Growth

¶2. In late November, the Directorate General of Budget, Accounting and Statistics (DGBAS) raised Taiwan's 2007 economic growth estimate by nearly one percentage point to 5.46%. An unexpected rise in exports is credited for most of the revision. Actual year-on-year (y-o-y) export growth in the third quarter (Q3) was 9.7%, as opposed to the 5.8% which had been predicted in July. The rise was even more dramatic for the month of October, which saw y-o-y export growth of 14.4%, more than double the 6.8% projected for Q4. Manufacturing output also accelerated throughout the year, increasing 1.1% in Q1 y-o-y, 6% in Q2, 11.8% in Q3 and 17.4% in October - a four year high.

¶3. This growth translated into profit increases for Taiwan companies. Dividends distributed by large companies in the first ten months grew 20% y-o-y, and growth in after-tax profits accelerated from 12.7% in Q1 to 36.5% in Q2 and 38% in Q3. Earnings by such industries as flat panels, DRAM, petrochemicals, and cement in the first ten months grew 50-100%. In the service sector, financial institutions also enjoyed handsome growth in earnings due to brisk sales of mutual funds. At their peak in September, Taiwan stock prices were up more than 40% over the 12 month period, although prices have since declined. Not surprisingly, domestic spending has finally started to increase slowly. Credit card loans

returned to growth in 2007, with the y-o-y growth rate accelerating from nil in Q1 to 1.2% in Q2, and 5.2% in Q3. Private investment is also accelerating - albeit slowly - up from 0.3% in 2005 and 3.0% in 2006 to an estimated 5.1% for 2007, to meet the needs of business expansion, especially in the capital-intensive semiconductor and TFT-LCD industries.

Slower Growth in 2008

14. DGBAS forecasts a more modest 4.53% GDP growth rate for 2008. With high commodity prices and the impact of the sub-prime crisis, forecasters are expecting a downturn in both the U.S. and Europe. This would directly effect Taiwan's export-driven economy. DGBAS forecasts Taiwan's export growth in 2008 will slow to 6% and that private investment growth will also decline.

Typhoon Inflation

15. Typhoon Sepat in September and Typhoon Krosa in October severely damaged produce farms, driving Taiwan's consumer price index to rise by 3.1% y-o-y in September and 5.3% in October, the highest increase in 14 years. This is largely due to the impact of higher food prices, which rose 15% y-o-y in October. The vegetable price index shot up 80%, with prices of such products as cabbage, cucumber, tomatoes, green onions, and eggplant more than doubling. Produce prices have since returned to normal levels. The overall inflation rate will decline, but is expected to remain above 2% over the next 3-to-6 months due to higher prices of imported grains, dairy products, and crude oil. Poor weather in Australia, for example, pushed up prices of dairy products by more than 10%, as Australia is Taiwan's major supplier. To stabilize prices, Taiwan authorities adopted a series of measures, including emergency imports of

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vegetables, temporary freezing of gasoline prices, and increased credit lines for grain imports. Law enforcement agencies even launched anti-trust investigations to crack down on any price manipulation and collusion.

Energy Efficiency

16. Economic Minister Steve Chen announced in mid-November that Taiwan had set a goal to improve energy efficiency by 33% by 2025. To help achieve this target, Taiwan has provided 200 major energy users with energy-saving assistance. Taiwan is also encouraging development of clean energy, such as solar energy, wind power, and bio-fuel. MOEA's target is to increase renewable energy capacity to 15% of Taiwan's total energy supply by 2025. Currently, 155 wind turbines are under construction and will be completed by the end of this year. Many domestic companies are entering the solar energy generation industry, and solar power, if MOEA targets are realized, will produce 1.2 billion kilowatt hours of electricity by 2025.

Taiwan World Leader in Flat Panel Production

17. Taiwan will become the world's number one producer of TFT-LCD flat panel displays and account for 43% of the global market share this year, according to the Market Intelligence Center (MIC) of the Institute for the Information Industry (III). South Korea will follow closely with a 40% share. As flat panel prices drop and orders increase, Taiwan's flat panel deliveries will set a record high of 15.5 million units, an increase of 51.3% over 2006. The MIC projected that Taiwan will remain the world top producer in 2008 with a 42% world market share.

Nissan Opens Global Design Center in Taiwan

18. Nissan and its manufacturing partner Yulon Motors set up a new design center in Taiwan. The Yulon-Nissan Design Center, which covers nearly 3,300 square meters and built at a cost of NT\$340 million (US\$10.5 million), will join the ranks of Nissan's six major design studios in Japan, the US, and the UK to create next-generation vehicle designs. In the future, Taiwan's design blueprints will serve as models for new vehicles aimed at the markets of Japan, Taiwan, Mainland China, the US, and Europe. The opening of the center marks Taiwan's first global automotive design

opportunity.

Resource recycling Industry

19. Taiwan's resource recycling industry has enjoyed rapid growth over the past several years. Its output increased from NT\$24.9 billion in 2002 to NT\$38.5 billion in 2006 and is expected to reach NT\$40 billion (US\$1.2 billion) this year, according to an estimate of the Industrial Development Bureau (IDB). Taiwan recycled 10.81 million tons of industrial waste and recovered 75% of the wastes, which has lowered costs due to environmental degradation by NT\$30.35 billion (US\$0.9 billion) a year. One factor behind development of the recycling industry has been a steady rise in prices of precious metals. This has prompted a growing number of Taiwan companies to engage in extracting precious metals from industrial wastes. Recently, major resource recycling manufacturers such as World Resources Company of the US and Tanaka Precious Metals of Japan established operations in Taiwan.

Great Potential for Taiwan's Solar PV Industry

10. Taiwan has set a goal to make solar energy the next "trillion NT\$" industry on the island. The Ministry of Economic Affairs (MOEA) projects that Taiwan will be the world's fourth-largest solar cell producer in 2007. Taiwan's solar photovoltaic (PV) industry

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output grew from NT\$7 billion (US\$215 million) in 2005 to NT\$21.2 billion (US\$646 million) in 2006, which accounted for 2% of global output. The MOEA projected the output of this industry in 2007 will surge 89% to NT\$40 billion (US\$1.2 billion), and that the figure will reach NT\$150 billion (US\$4.6 billion) in 2010. Taiwan's strong semiconductor industry gives it an advantage in developing solar power that uses crystalline silicon. Taiwan's strong TFT-LCD industry base will be used to develop thin-film solar panel technology.

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